HOW TO CREATE A CUSTOMER SERVICE PROCESS THAT ENHANCES YOUR BOTTOM LINE

By: John Goodman

salesforce®

INTRODUCTION

A complaint about complaints

There's an assumption that the number of complaints received is a perfect reflection of the number of customer problems. If complaints go down, other numbers such as warranty and service costs will go down as well. In fact, complaints are often a poor indicator of the level of problems and dissatisfaction. Focusing on that number causes counter-productive behaviors in many managers and employees.

There is a basic flaw that assumes most customers complain when they have a problem.

In fact, not even 25% of customers complain, even in B2B – because it's too much hassle. Customers think the company won't care or won't fix the problem.
Here are three ways to address this challenge:

25%
of customers complain

1. Invest in empowerment, tools, and training to increase problem resolution rates for those customers who are already complaining. The key tool to enhance effectiveness is information about the customers and their transactions so empowerment can be intelligently used.

2. Get more of the non-complainants to complain so you can resolve their problems. Use the message, "We can only resolve problems we know about!"

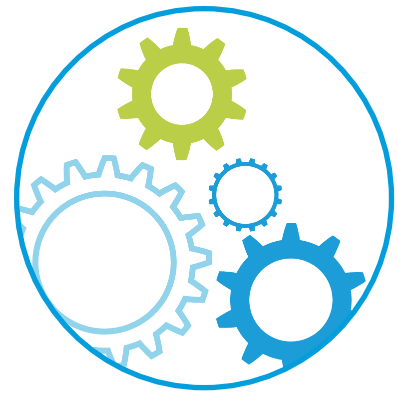
3. Prevent problems via more communication with education for customers to properly set expectations and help them avoid problems.

You will be more profitable if you get the customers with problems to tell you about them so you can quickly resolve their problems, win their loyalty, and retain their revenue. For any customer worth more than $20 a year, it is always cheaper to answer their needs and retain them, rather than ignoring the problem, which will lose them and their revenue. Once this fact is demonstrated to the CFO, you'll get the resources to build a successful customer service system.

THIS EBOOK WILL HIGHLIGHT

Customer complaint behavior myths

How you can get the CFO and CMO on board by actually inviting complaints



Key components and data of a successful customer service system

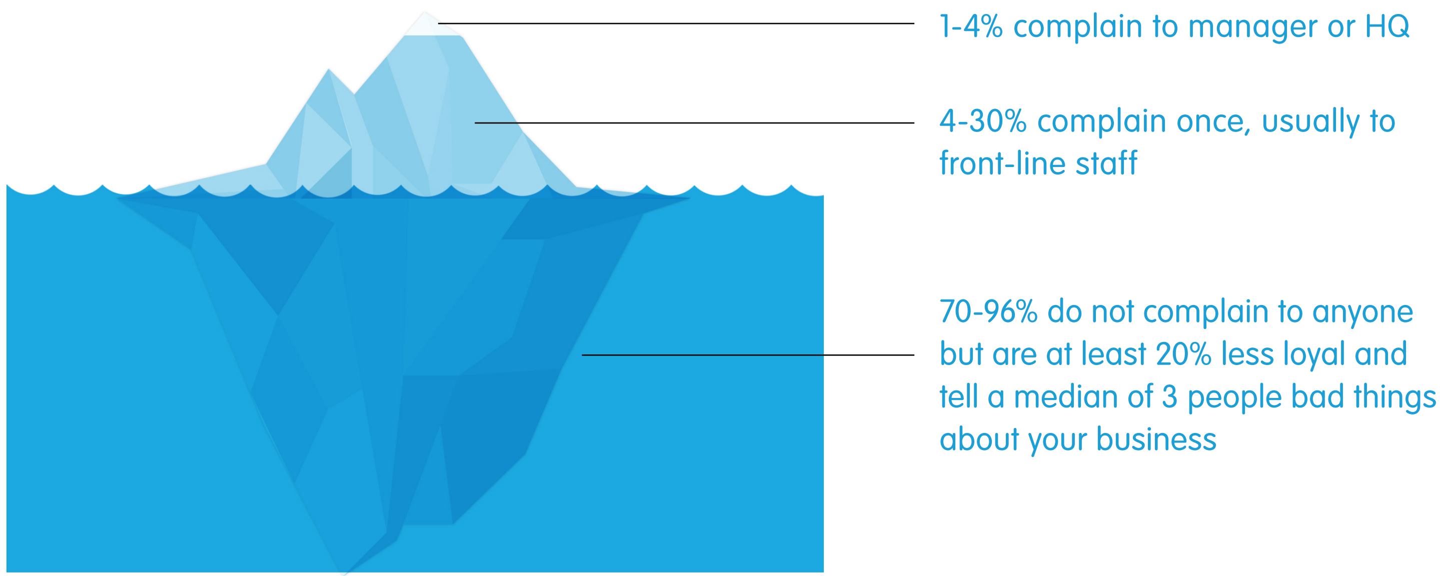
MYTHS & REALITY

There are four key myths connected with customer complaints from executives. None of them are true for any product or service, whether for-profit or non-profit.

1 Myth: Most customers complain when they encounter a problem

Reality: You are hearing from less than 25% of customers who have encountered problems.

This myth has never been found to be true, even for serious problems in consumer or B2B. The number of complaints to managers or HQ is very low (1-4%) and 70-90% don't complain at all.



2 Myth: If we get more complaints we have to give away more money

Reality: Every additional complaint handled and resolved provides an ROI of at least 100%.

Even if you have to spend a bit of time to satisfy the complaint, your return on that investment is at least 200% and up to 500%. (See the details in the next section that balance the revenue retained vs. the cost of complaint handling.)

Also, you may not even have to give the customer a refund. Research shows that a clear, believable explanation is often more effective in retaining loyalty than cash compensation. For one automobile company, a persuasive explanation of the warranty provisions and value, while taking a little longer, led to higher satisfaction than fully reimbursing the customer for out-of-warranty repairs. The explanation was more important than the amount of money given in driving satisfaction.

3 Myth: Fewer calls means better service, better experience and lower costs, while more calls means more cost and lower profits

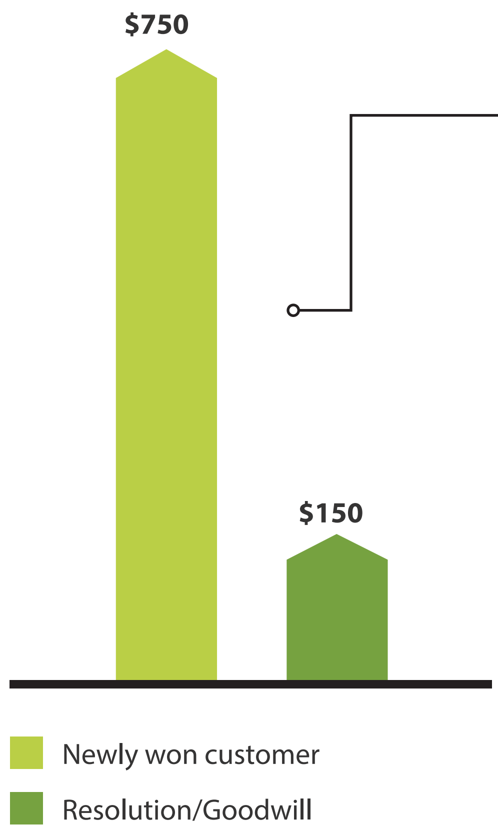
Reality: Fewer calls may mean fewer problems but could also mean customers have stopped complaining due to trained hopelessness. If so, fewer calls can mean lower revenue and profits in addition to lower complaint handling costs.

Unless you know the actual rate of customer problems, you do not know if things are getting better or just quieter before the storm. If employees are rated on the number of complaints reported, it is easy for them to interpret the statement, "Why do I have this service charge?" as a question rather than a complaint. Voila – complaints are down and the employees make their numbers.

4 Myth: It is better to invest in marketing and advertising than in service

Reality: It costs at least five times as much to win a new customer as to keep one.

This truism is actually based on research done under a White House sponsored study in the 1980s. It looked at the marketing and advertising expense for each new car sold at a major manufacturer and compared it to the average cost of problem resolution at that same company.



The marketing cost was $750 per newly won customer while the resolution/goodwill cost was about $150 per customer; a five to one ratio.

This same finding exists in dozens of other studies, with the ratio rising as the value of the customer rises. Once you understand the true facts, you need to use them to convince the CFO and CMO that it is profitable to tap into the pool of unarticulated complaints. One CFO in the travel and leisure industry calculated that for every dollar spent on complaint handling, they made seven dollars in incremental profit – he became the top advocate of what I call an aggressive service system.

Intro

Myths & Reality

> A Case for Complaints

Successful Approach to Service

Get Started

Takeaways

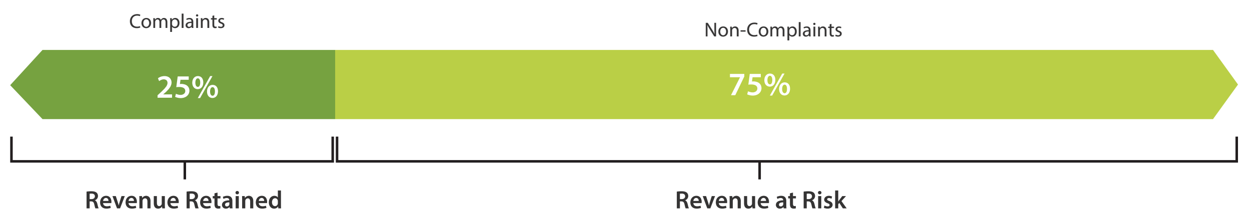
About the Author

GET THE CFO & CMO TO WANT COMPLAINTS

CFOs want a higher return on investment and CMOs want more customers for less marketing investment. CMOs also want continually increasing sales. Using the graphics below, you can convince both that the cheapest way to enhance profit and sales is to mine the existing customer base for unarticulated dissatisfaction.

STEP ONE: Show that unvoiced complaints equal lost revenue

In the graphic below: if you don't hear from 75 of customers with problems, you are placing 75% of their revenue at risk. You have no chance of reversing those customers' negative experience.



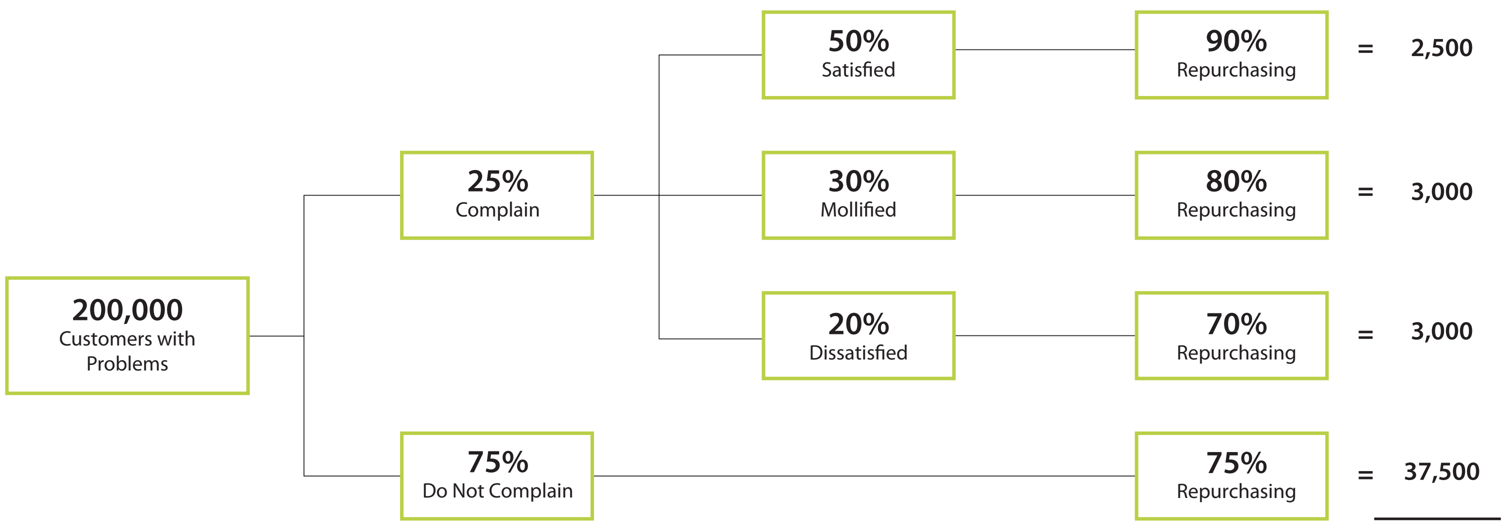
Also show the CFO the payoff of getting more customers to complain. Getting 50% of them to complain can result in significantly increased revenue.

STEP TWO: Operationalize the concept

Get estimates of the value of the customer and the cost of complaint handling. Know the percentage of customers with problems and their loyalty if they have a problem and do not complain. Also look at the result of complaints - are they satisfied?

In this case we assumed that 200,000 out of one million customers had a problem and that 25% of customers complained, 50% are completely satisfied (top box), and 90% of completely satisfied customers were retained. You can demonstrate that 81% (37,500) of the customers at risk are those that never complained.

Getting the Resources: Quantify the Revenue Risk of the Status Quo



Total Customers at Risk = 46,000

46,000 X $1,000 per customer = $46,000,000 AT RISK

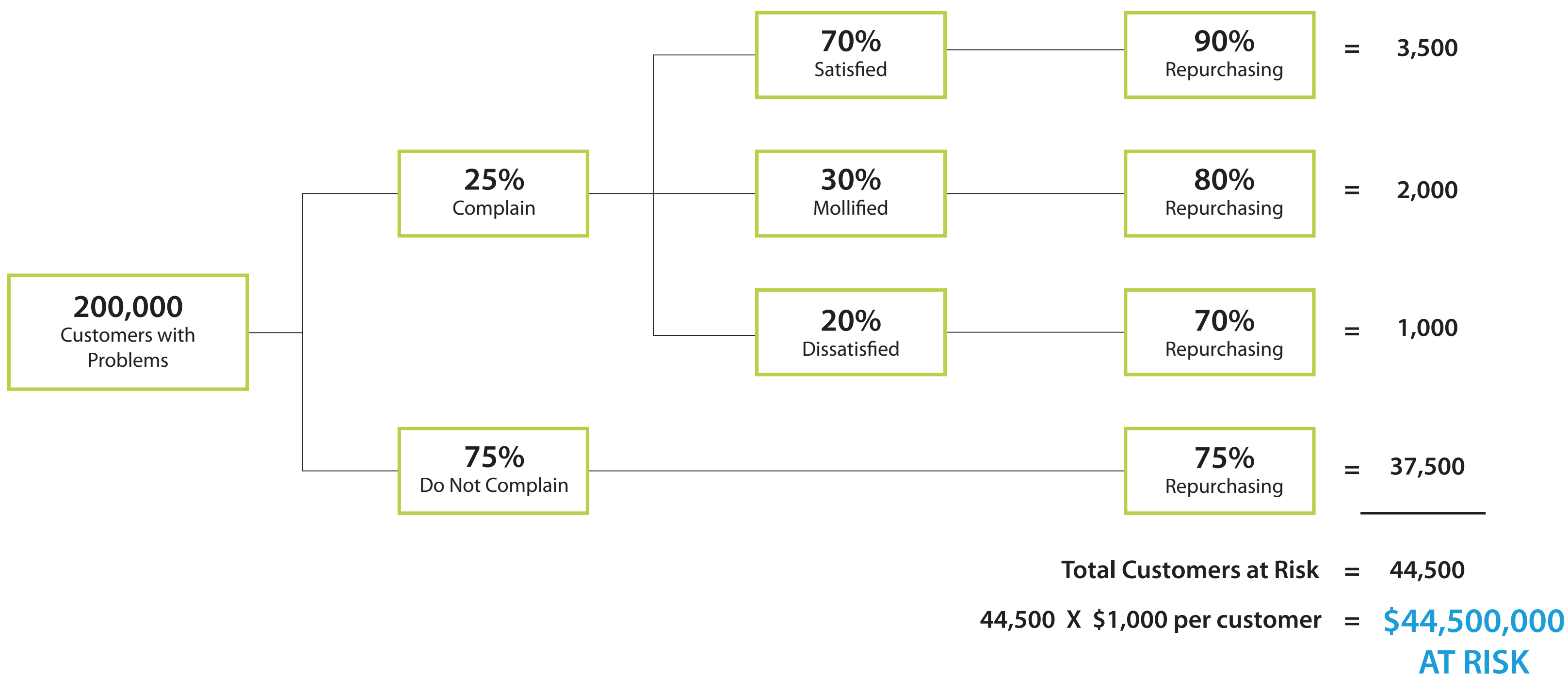
Intro
Myths & Reality
> A Case for Complaints
Successful Approach to Service
Get Started
Takeaways
About the Author

STEP THREE: Show the value of increased rates of service recovery

Demonstrate that increasing the percentage of customers who are completely satisfied will increase your brand's value. This increase in resolution rate, from 50% to 70%, can be achieved via empowerment and better information.

Quantify the Revenue Payoff of Increased Resolution

Move resolution from 50% to 70%



Net enhanced bottom line of $1,500,000 with no more calls

Intro

Myths & Reality

> A Case for Complaints

Successful Approach to Service

Get Started

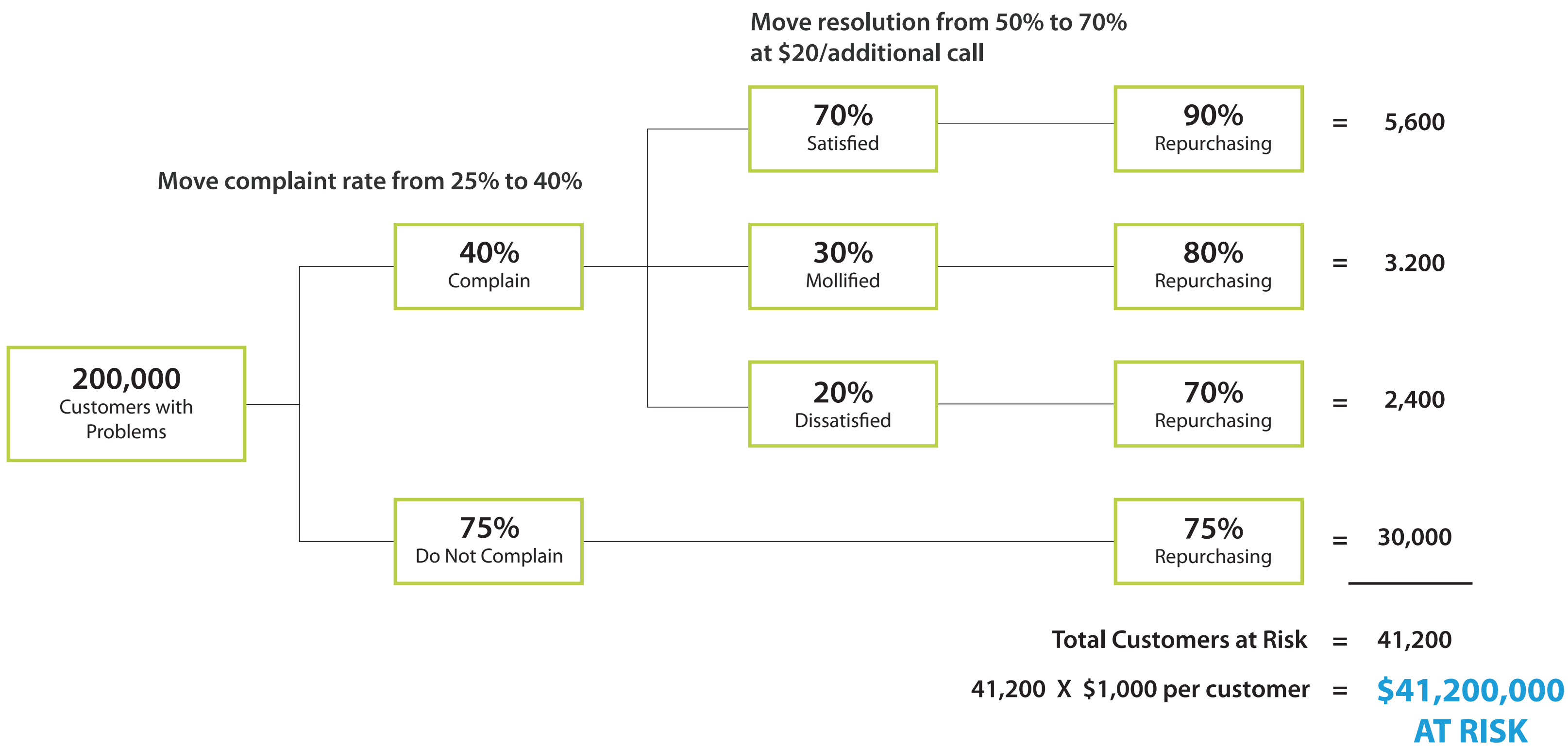
Takeaways

About the Author

STEP FOUR: Show the value of increasing the complaint rate by increasing the rate from 25% to 40%

In this example, I assumed a cost per incremental complaint handled of $20.

Quantify the Revenue Payoff of Increased Accessibility & Resolution



Net enhanced bottom line of $4,200,000 even allowing for 30,000 more calls at cost of $600,000

Continued on page 11

Continued from page 10

The ROI of the investment in receiving 30,000 more calls from dissatisfied customers is actually surprising.

Assuming a gross contribution of 25% of sales, the gross profit for each customer retained is $250, the ROI is 100% after paying $600,000 for handling the incremental calls. The details of the calculation are outlined below.

- **30,000 more calls at $20/call (includes cost of remedy for some calls) = $600,000**
- **$4.8MM incremental revenue**
- **At 25% Gross contribution, the incremental profit is $1.2MM.**
- **ROI is 100% allowing for $600,000 incremental cost of handling calls.**

Plus, if each of the non-complainants had told four friends or associates, you would have also avoided 120,000 cases of negative word of mouth. This word of mouth impact will get the attention of the CMO, because word of mouth is the most powerful marketing mechanism.

A final question to ask marketing is the cost of winning a new customer. In the example on the previous page, if the cost is greater than $20 per customer, you have shown that it's cheaper to keep a customer via service than going to find and win a new one.

MOVE TO A SUCCESSFUL APPROACH TO SERVICE

There are two strategies to enhance the bottom line with service:

Enhance satisfaction when customers complain

Break down barriers to get a higher percentage of unhappy customers to complain

Enhance satisfaction when customers complain

This strategy includes empowerment and information.

Empowerment is only effective when you can ensure that your front line understands who the customer is and how much they are (or can be) worth as well as the circumstances of the customer's current request.

Eighty percent of all issues are basically no brainers where the solution is obvious. For these issues, employees should be able to work from their basic training to mostly satisfy and sometimes mollify the customer. Excellence lies in the other 20 percent of issues that are more complex or include shades of grey. Employees must feel capable of handling each cluster of individual issues. To tell them they have blanket empowerment often does not work as they do not know when to use the power.

Empowerment must be provided issue by issue. The best solution is flexible solution spaces (FSS). For each issue, such as out of warranty engine repair in the auto environment, there are a series of criteria that must be considered, such as quality of customer maintenance, where maintenance was done, age of car, customer household purchase history, etc. You then provide guidelines for decision-making which gives relatively great flexibility to the front line staff person. Within those guidelines they have free rein. This strategy of empowerment must be supported by enhanced information.

Break down barriers to get a higher percentage of unhappy customers to complain

The key to this strategy is address and removing these four barriers.

Complaining is too much hassle – submitting the complaint must be effortless.

A minimum of information must be requested as a required item. For instance, a mobile app such as 45sec.com, allows the customer to simply touch record on their mobile phone, speak about their complaint for up to 45 seconds, and hit submit. The app software identifies the appropriate recipient of the complaint (both company HQ and local manager) and transmits the complaint to the company in a few minutes. Consider how you can make the complaint process that easy for customers.

There is a belief that the company will not care or fix the problem.

The message that the company WANTS to hear about problems must be in front of the customer exactly when they encounter the issue. For instance, think of the types of complaints that customers might have and share them out as encouragement for others to chime in.

Fear of retribution.

The front line staff must convey that all complaints are necessary and encouraged, even complaints about other staff members. No matter what, it is a process that needs to be fixed and addressing the issue is the first step to resolution.

Lack of an easily used, preferred channel of communication.

Provide customers with all the possible channels that they might prefer to reach out. Include a chat function on your website as well as the 800 number, email address, social channels, etc. Channel hopping should be facilitated and encouraged. Another example of breaking down barriers to complaining is Zappos. They encourage customers to complain even about small things via the Zappos customer community. You can comfortably critique product sizing and fit so that other customers are forewarned about particular products. This results in fewer returns. Again, convenience of channel is critical to getting complaints.

GET STARTED

Now it's time to take the necessary steps to get those complaints heard. Here's a five-step process to get started.

1. Ask a friend in Finance for a conservative estimate of the value of a customer.

2. Ask Marketing for a conservative estimate of the cost of winning a new customer. If no one can give you an estimate, ask what the advertising and sales budget is and divide half of that by the number of new customers to estimate the cost per new customer.

3. Ask customers (ideally 100) whether they have had problems with your products and services and whether they've complained.

4. Personally call ten customers who have recently left your business and ask them why they left. Ask if they had requested assistance. You will identify at least five customers who had problems but did not complain, and these stories will be powerful ammunition.

5. Using the information collected in steps one through four, meet with the Finance and Marketing staffs and trial balloon the logic and assumptions of your economic model. Incorporate their advice and walk away ready to present a business case for more customer complaints.

6. Pilot test the aggressive complaint solicitation strategy by sending a strong message to a relatively small number of your customers e.g. one percent to start, to see how many additional contacts you receive. If you must use labeling or the web to solicit, start with a very small message and then ratchet it up (in terms of size and strength of message) as you understand how many more contacts you will receive. Better a small success than a big disaster.

TAKEAWAYS

Remember these takeaways:

1. Few complaints may mean a large pool of silent unhappy customers
2. More calls are better than less calls if they are from customers with problems or questions
3. Almost all service systems can retain customers more cheaply than marketing can win new ones
4. A prerequisite to an aggressive complaint solicitation approach is having an effective response

AUTHOR

John Goodman
Vice Chairman, Customer Care Measurement and Consulting

About the Author: John Goodman is Vice Chairman of Customer Care Measurement and Consulting in Washington, D.C. He has managed more than 1,000 separate customer service studies, including the White House sponsored evaluation of complaint handling practices in government and business and studies of word of mouth and the bottom-line impact of consumer education sponsored by Coca-Cola USA.

Contact John at jgoodmam@customercaremc.com and you can purchase John's book, Strategic Customer Service on Amazon.

CUSTOMER SERVICE SOLUTIONS THAT WILL MAKE YOUR BUSINESS MORE PRODUCTIVE

The world is changing. Customers are demanding more and better service, delivered through every conceivable channel. That's why more companies are using salesforce.com's customer service software-as-a-service solution for call center CRM and help desk management.

See Demo

Free Trial

Contact Me

CONNECT AGENTS TO CUSTOMERS WITH SALESFORCE

48%

increase in agency productivity

SELL. SERVICE. MARKET. SUCCEED

Follow salesforce.com and stay up-to-date with the latest business thought leadership:

Blog

Facebook

Twitter

LinkedIn